

**STATE OF NEW HAMPSHIRE
POLICE STANDARDS AND TRAINING COUNCIL**

**FINANCIAL AUDIT REPORT
FOR THE SIX MONTHS ENDED
DECEMBER 31, 2010**

**STATE OF NEW HAMPSHIRE
POLICE STANDARDS AND TRAINING COUNCIL**

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This report can be accessed in its entirety on-line at www.gencourt.state.nh.us/lba/audit.html

**STATE OF NEW HAMPSHIRE
POLICE STANDARDS AND TRAINING COUNCIL**

Reporting Entity And Scope

The reporting entity of this audit and audit report is the New Hampshire Police Standards and Training Council. The scope of this audit and audit report includes the financial activity of the Police Standards and Training Council for the six months ended December 31, 2010. Unless otherwise indicated, reference to the Council, PSTC, or auditee refers to the Police Standards and Training Council.

Organization

The Police Standards and Training Council (Council) is established in RSA 188-F:24 and consists of 12 members: eight members appointed by the Governor to a two year term and four ex officio members. The Governor appoints the chairperson of the Council. RSA 188-F:25 describes the Council as an executive branch council administratively attached to the Community College System of New Hampshire. The Director is appointed by the Council pursuant to RSA 188-F:26, XIV. The Director, an unclassified employee, is responsible for the administrative operations of the Council including hiring all other Council employees. At December 31, 2010, the Council was staffed by 23 full-time and four part-time employees.

The Council's office is located at 17 Institute Drive, Concord, New Hampshire, 03301-7413.

Responsibilities

Pursuant to RSA 188-F:26, the Council is charged with establishing minimum hiring and educational standards for police, state corrections, and probation-parole officers and the certification of persons qualified to serve in those positions. The Council provides mandatory basic training to new police, state corrections and probation-parole officers, as well as in-service training to currently certified officers. In addition, the Council approves the curriculum and physical fitness standards for county corrections officers, conducts voluntary accreditation programs for law enforcement agencies, and publishes model policies and monthly training periodicals.

The Council currently certifies approximately 4,100 full and part-time police officers employed by the State and its political subdivisions and trains or certifies approximately 700 sworn and civilian employees of the New Hampshire Department of Corrections.

Funding

Funding for the Police Standards and Training Council is primarily derived from assessments on court-imposed fines and penalties. RSA 188-F:31 directs, "[e]very court shall levy a penalty assessment of \$2 or 24 percent, whichever is greater, on each fine or penalty imposed by the court for a criminal offense...for deposit in the following funds...54.17 percent of the amount

collected in the police standards and training council training fund, 16.67 percent of the amount collected in the victims' assistance fund, 16.67 percent of the amount collected in the judicial branch information technology fund, and the remainder in the general fund." RSA 262:44 directs the same percentage (54.17 percent) of the penalty assessments collected from persons charged with certain motor vehicle violations that plea by mail be deposited in the Police Standards and Training Council training fund. Other funding for the Council includes, per RSA 504-A:13,II(a), \$5 from each monthly supervision fee collected by the Department of Corrections from probationers and parolees, which is used to defray the expenses of providing training to the employees of the Department of Corrections. During the six months ended December 31, 2010, the Council also received revenue from a federal pass-through grant from the State's Highway Safety Agency.

The financial activity of the Police Standards and Training Council is accounted for in the General and Capital Projects Funds of the State of New Hampshire. A summary of the Council's revenues and expenditures for the six months ended December 31, 2010 is shown in the following schedule.

**Summary Of Revenues And Expenditures
For The Six Months Ended December 31, 2010**

	General Fund	Capital Projects Fund	Total
Total Revenues	\$ 1,435,647	\$ -0-	\$ 1,435,647
Total Expenditures	<u>1,795,498</u>	<u>380,423</u>	<u>2,175,921</u>
Excess (Deficiency) Of Revenues Over (Under) Expenditures	<u>\$ (359,851)</u>	<u>\$ (380,423)</u>	<u>\$ (740,274)</u>

Prior Audit

The most recent prior financial audit of the Council was for the nine months ended March 31, 2005. The appendix to this report on page 33 contains a summary of the current status of the observations contained in that report. The prior audit report can be accessed at the Office of Legislative Budget Assistant website: www.gencourt.state.nh.us/lba/audit.html.

Audit Objectives And Scope

The primary objective of our audit was to express an opinion on the fairness of the presentation of the financial statement of the Police Standards and Training Council for the six months ended December 31, 2010. As part of obtaining reasonable assurance about whether the financial statement is free of material misstatement, we considered the effectiveness of the internal controls in place at the Council and tested its compliance with certain provisions of applicable State laws, rules, regulations, and contracts. Major accounts or areas subject to our examination included, but were not limited to, revenues and expenditures.

Our report on internal control over financial reporting and on compliance and other matters, the related observations and recommendations, our independent auditor's report, the financial statement, and supplementary information are contained in the report that follows.

Auditor's Report On Internal Control Over Financial Reporting And On Compliance And Other Matters

To The Fiscal Committee Of The General Court:

We have audited the Statement of Revenues and Expenditures - General Fund and Capital Projects Fund, of the New Hampshire Police Standards and Training Council (Council) for the six months ended December 31, 2010 and have issued our report thereon dated April 18, 2011 which was qualified as the financial statement does not constitute a complete financial presentation of the Council. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Council's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Council's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses, and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described below, we identified one deficiency in internal control over financial reporting that we consider to be a material weakness and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Council's financial statement will not be

prevented, or detected and corrected on a timely basis. We consider Observation No. 1 to be a material weakness.

A *significant deficiency* is a deficiency or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in Observations No. 2 through No. 6 to be significant deficiencies.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Council's financial statement is free of material misstatement, we performed tests of the Council's compliance with certain provisions of laws, rules, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* and is described in Observation No. 7. We also noted immaterial instances of noncompliance which are described in Observations No. 8 and No. 9.

The Council's response is included with each observation in this report. We did not audit the Council's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the management of the Police Standards and Training Council, others within the Council, and the Fiscal Committee of the General Court and is not intended to be and should not be used by anyone other than these specified parties.

Office Of Legislative Budget Assistant

April 18, 2011

Internal Control Comments
Material Weakness

Observation No. 1: Controls Should Be Established Over Revenues Collected For The PSTC By Other State Organizations

Observation:

The PSTC does not have controls in place to ensure the accuracy and completeness of the revenues collected on its behalf by the Administrative Office of the Courts (AOC) and the Departments of Safety (DOS) and Corrections (DOC). Instead, the PSTC relies upon the controls in place at those organizations.

Most of the revenue reported on the PSTC's financial statement is collected, deposited, and recorded on the PSTC's behalf by other State organizations. Approximately 54% of the penalty assessments collected by the AOC and the DOS is posted to the PSTC's revenue account. The remainder is allocated between the State's Victims' Assistance Fund, the Judicial Information Technology Fund, and the General Fund. In addition, the DOC posts \$5 of each probationer and parolee supervision fee to the PSTC's revenue account. These State agencies processed and recorded approximately \$1.4 million of PSTC revenue during the six months ended December 31, 2010.

An observation recommending PSTC take a more active role in monitoring revenue collected on its behalf was made during our prior 1997 and 2005 audits of the PSTC. In response to the 2005 audit comment, the PSTC developed certain policies and procedures intended to improve controls over the collection and reporting of this revenue.

During the six months ended December 31, 2010, the PSTC did not fully follow its policies and procedures to monitor the accuracy and completeness of the amounts posted to its revenue accounts. While the PSTC monitored posted revenues and compared total revenue recorded on a monthly and annual basis to prior periods, it did not request certifications from agencies collecting revenue on its behalf or perform any audits or reviews of those agencies' activities. Both of those control activities are described in the PSTC's policies and procedures documents.

Recommendation:

The PSTC should review its policies and procedures for the control of revenues collected on its behalf by other State agencies to determine whether the policies and procedures remain relevant and appropriate.

Based upon that review, the PSTC should implement controls to provide reasonable assurance that revenues collected and posted to the PSTC revenue accounts are accurate and complete.

The PSTC should work with the AOC, DOS, and DOC to institute reasonable procedures that will allow the PSTC to become more knowledgeable about its revenue processes and participate in the controls over that revenue collection.

Auditee Response:

We concur. PSTC has continued to monitor revenue activity on both a monthly and yearly basis from our three primary revenue sources. We are reliant upon the accuracy of the collection and reporting by those agencies as we are not directly involved in the collection of the revenue which gets deposited into the police standards and training council training fund. The policy that was previously adopted for monitoring by PSTC was too far-reaching as it required PSTC to perform audits of the contributing agencies. PSTC does not believe it has statutory authority or staffing to require or complete this type of requirement. Our policy has been re-written to address this limitation. We will continue to monitor monthly and yearly receipts of revenue from contributing agencies, looking for consistency in the revenue received with follow-up, should receipts fluctuate outside of normal activity. We will also request yearly confirmation from each contributor that the total funds received by PSTC is accurate and will compare that against the total amount of penalty assessment funds collected. The audit team worked with the contributors to format the reports that they will provide, and we will work with them as to the best way to review and compare that information against our actual receipts.

Significant Deficiencies

Observation No. 2: Redundant And Ineffective Controls Should Be Eliminated

Observation:

The PSTC's business office prepares and maintains computer spreadsheets of accounting information that is duplicative of information readily available in the State's accounting system, NHFirst, or otherwise unnecessary for controlled agency operation.

The PSTC's business office employs several spreadsheets in addition to NHFirst to track PSTC financial activity. These spreadsheets are used as source information for internal reporting and also for reconciling and proving NHFirst reported information.

In our prior 2005 audit report, we also observed the PSTC's business office prepared and utilized several automated and manual ledgers and schedules that resulted in redundant posting and reporting of financial information. While the PSTC has eliminated a number of redundant activities since the prior audit, the PSTC at the time of the current audit continued to maintain spreadsheets that are duplicative of information reported in NHFirst and to generate monthly expense reports that, while different in format, contain information also available in monthly NHFirst reports.

As another example of an inefficient and unproductive control process, in September 2010, the PSTC's business office began periodically printing its portion of the NHFirst Detail Transaction Register Report (DTR) and comparing it to an electronic spreadsheet version of the same report to ensure agreement of the two reports. Because the reports, both printed and electronic spreadsheet versions, are derived from the same data set, the detection of an inconsistency or error is improbable and beyond the responsibility of an individual agency.

The PSTC's maintenance of spreadsheets and reports that are duplicative of NHFirst reports and preparation of excessive reconciliations appears to be based more on the continuation of past practices than the PSTC's current information needs and control requirements.

Recommendation:

The PSTC should again review the efficiency and effectiveness of its financial control activities. The PSTC should especially challenge the continued necessity for its preparation and use of apparently redundant spreadsheets and reconciliations, with the intent to eliminate unnecessary and ineffective control activities.

As part of that review, the PSTC must become more familiar with the reporting currently available from the State's accounting system to determine whether standard accounting system reports will provide required information in a format that would be responsive to the PSTC's needs. If current NHFirst reports do not address the needs of the PSTC, the PSTC should work

with the Department of Administrative Services to have a report designed that would efficiently and effectively provide the information required by the PSTC.

Auditee Response:

We concur. PSTC had been working to eliminate any redundancies as stated in the previous audit, but still currently maintains spreadsheets of information that we find beneficial to our operations. We worked with the audit team to identify how NHFirst could provide information that we are otherwise tracking separately, and we will begin the transition away from spreadsheets once we determine that the required information can be obtained as necessary. If deficiencies are noted in the reporting provided within NHFirst, we will work with the Department of Administrative Services to develop system generated reports that will address our needs.

Observation No. 3: Encumbrance Activity Should Be Regularly Monitored

Observation:

The PSTC's inattention to certain State purchasing rules, procedures, and accounting system reports contributed to the PSTC maintaining an excess balance of encumbrances at December 31, 2010. An auditor review of open encumbrances as of that date showed approximately \$227,000, or 18% of the PSTC's open encumbrances, were more than a year old. A subsequent further review by the PSTC resulted in the liquidation of \$222,000, or 98% of those old encumbrances in February 2011.

Recommendation:

The PSTC should periodically review its open encumbrances to ensure they are properly liquidated when related purchases are made or encumbrances are otherwise determined to be no longer needed.

The PSTC should review the source of the old encumbrances noted above to determine the circumstances that caused the encumbrances to remain undetected and uncorrected on the accounting system reports. The PSTC should ensure agency personnel are knowledgeable of and are required to follow State purchasing rules.

Auditee Response:

We concur. As stated by the observation, we have liquidated the old encumbrances remaining that are no longer necessary. The staff responsible for encumbrance activity is now aware of the need to liquidate encumbrances once they become unnecessary and they will make more periodic reviews of encumbrances to identify them on a timelier interval.

Observation No. 4: Inter-Governmental Revenue Transactions Should Be Used When Appropriate

Observation:

The PSTC's confusion over accounting for an inter-governmental financial transaction resulted in certain PSTC revenue being incorrectly recorded as a negative expenditure.

The PSTC entered into an agreement with the State's Highway Safety Agency (HSA) to conduct a program of instructor training classes during the first quarter of fiscal year 2011. Both revenue and expenditure accounts were established in the State's accounting system (NHFirst) to account for the related financial activity.

Apparently due to a misunderstanding in the program's account structure and guidance on processing inter-governmental transactions, the PSTC directed the HSA to post its payments for the program to the PSTC's expenditure class line instead of the revenue class line. As directed by the invoice, the HSA recorded the payment for the PSTC's services as a negative expenditure in the PSTC's accounts.

The effect of the resulting misposting was to understate the PSTC's revenues and expenditures by approximately \$33,000 for the six months ended December 31, 2010. The accompanying financial statement has been corrected for this error.

In addition to not correctly identifying the account to credit the revenue, the PSTC did not use the more efficient inter-governmental transaction process available in NHFirst.

Pursuant to NHFirst guidance, "Processing Inter-Governmental Transactions (AR005)", the PSTC, as the receiving agency, should have created an accounts receivable invoice entry in the appropriate revenue account and submitted a hard copy invoice to the HSA, the paying agency. The PSTC did not create a NHFirst accounts receivable invoice entry but instead only sent a paper invoice to the HSA directing payment to an expenditure account.

Recommendation:

The PSTC should correct the misposting in NHFirst.

The PSTC should become familiar with processing revenue transactions, including revenues processed through inter-governmental transactions in NHFirst. The PSTC should review NHFirst guidance and, if appropriate, receive additional training in this activity.

Auditee Response:

We concur. The funds received by HSA were incorrectly posted as a negative expenditure rather than revenue. The staff responsible to make such payment has corrected the misposting and is now fully aware as to how to post similar transactions in the future. They will receive further training as necessary to insure familiarity with processing inter-governmental transactions.

Observation No. 5: Familiarity And Compliance With State Manual Of Procedures Should Be Improved

Observation:

The PSTC reported its misunderstanding of State contract approval requirements led to the PSTC entering into a \$3,500 service contract without having first submitted the proposed contract to Governor and Council for their approval.

The Department of Administrative Services' Manual of Procedures, Section MOP 150, IV, Governor and Executive Council Approval of Service Contracts, A, states, "Approval of the Governor and Executive Council shall be required in order for any executive branch agency to enter into the following contracts: 1. Contracts in the amount of \$2,500.00 or more covering personal services, consultant services, and costs associated with organized meetings...."

The PSTC reported it mistakenly understood the dollar threshold for submitting service contracts to be \$5,000 and, therefore, it did not submit the contract to Governor and Council for their approval.

Recommendation:

The PSTC should review the Manual of Procedures to ensure it is familiar with standard State procedures.

Auditee Response:

We concur. This was an error on our part in understanding how the \$2,500 and \$5,000 thresholds established within the Manual of Procedures applied with this specific contract. In speaking with our Administrative Services Business Supervisor, we have clarified the proper application of the \$2,500 threshold for this type of contract. The staff responsible for this process is now also aware and is taking the appropriate actions.

Observation No. 6: Unused Accounting Units Should Be Deactivated

Observation:

The State's accounting system (NHFirst) includes ten active accounting units within the PSTC accounting structure that are no longer used by the PSTC. The obsolete accounting units largely pertain to programs that are no longer offered by the PSTC.

Maintaining active but obsolete or otherwise unused accounts in an accounting system increases the risk of errors or frauds occurring and not being detected and corrected in a timely manner.

Recommendation:

The PSTC should review the status of the above mentioned unused accounting units and request all unused accounting units be deactivated.

Auditee Response:

We concur. The staff responsible for this has been advised and have requested the deactivation of these accounting units through the Bureau of Accounts. We will continue to remove accounting units as they become unnecessary.

State Compliance Comments

Observation No. 7: Appropriations Should Be Reduced For Unmet Budgeted Revenue

Observation:

Since at least fiscal year 2008, PSTC's revenues have not met budgeted amounts. Footnote I to the State's Operating Budgets for fiscal years 2008 through 2011 required agencies to reduce appropriations in the amount of unmet budgeted revenue. While the PSTC's actual expenditures were less than the original appropriated amounts in each of these fiscal periods, PSTC's revenues in fiscal years 2008, 2009, 2010, and the first six months of fiscal year 2011 did not cover actual expenditures. As noted in the following table, in the last three and a half years, PSTC expenditures have exceeded revenues by \$1.5 million, reducing the available balance in the PSTC Training Fund by that amount. The available balance in the accounting units funded by the PSTC Training Fund as reported in the State's accounting system (NHFirst) at December 31, 2010 was \$386,410.

<u>Fiscal Year</u>	<u>Actual Expenditures</u>	<u>Actual Revenue</u>	<u>Revenue Deficiency</u>
2008	\$ 3,367,241	\$ 3,236,628	\$ (130,613)
2009	3,532,813	3,081,313	(451,500)
2010	3,422,329	2,859,974	(562,355)
2011*	<u>1,795,498</u>	<u>1,435,647</u>	<u>(359,851)</u>
	<u>\$ 12,117,881</u>	<u>\$ 10,613,562</u>	<u>\$ (1,504,319)</u>

* Six months ended December 31, 2010

While, as reported in Observation No. 3, \$222,000 of unnecessary encumbrances at December 31, 2010 were liquidated in February 2011 increasing the PSTC's available balance by that amount, at the current rate of depletion, the PSTC's available balance will likely be exhausted in fiscal year 2012.

Recommendation:

The PSTC should comply with the State Operating Budget and reduce appropriations for the amount that estimated revenues will not meet budgeted amounts.

In the circumstances where the reduction may prevent the PSTC from carrying out its statutory responsibilities, the PSTC should utilize the provisions of RSA 188-F:32-b and request authority from the Governor and Council and the Fiscal Committee to expend beyond its reduced appropriated amount as provided by that statute.

The PSTC should review its business plan to consider whether opportunities exist to become more financially efficient. The PSTC should also request legislative direction in its efforts to plan for its future funding.

Auditee Response:

We do not concur. PSTC has complied since FY 2008 with all budget footnotes. All revenue received by PSTC is directly deposited into the police standards and training council training fund for the purpose of paying expenses incurred in the administration of PSTC, consistent with RSA 188-F:30. The source of funds for all annual appropriations to PSTC is the police standards and training council fund. While annual revenue to the fund has been less than annual operating expenses since FY 2008, the fund's purpose is to insure that sufficient funds are available to support annual appropriations approved by the Legislature and the Governor. If PSTC determines at any time the fund balance will be insufficient to support appropriations, PSTC will reduce appropriations consistent with budget footnotes. Further, RSA 188-F:32-b authorizes "the transfer of *unappropriated amounts* from the police standards and training council training fund (emphasis added)" with approval by the Governor and Council and Fiscal Committee upon request of PSTC should additional funds be necessary to meet the statutory obligations of PSTC. PSTC has consistently met its statutory obligations by expending less than budgeted appropriations since FY 2008, and has not needed to request the transfer of unappropriated amounts from the fund under RSA 188-F:32-b. PSTC has been financially efficient in operations, but does identify the need for increased revenue going forward and welcomes any assistance in the provision of further revenue.

Observation No. 8: Compliance With Recycling Statute Should Be Improved

Observation:

The PSTC, during the six months ended December 31, 2010, did not consistently comply with State statute relative to the sale of recycled materials, specifically RSA 9-C:7, I, which states, "All sales revenues for materials recycled by state agencies shall be forwarded quarterly to the state treasurer for deposit into the state recycling fund established in RSA 9-C:6."

During the six months ended December 31, 2010, the PSTC on two occasions sold spent bullet metal to the State's metal recycling contractor. The PSTC deposited approximately \$2,100 of revenue from those sales into the PSTC's revenue accounts. According to the PSTC, it was unaware the proceeds from the sale of the metal should be deposited in the State's recycling fund.

In another recycling transaction, the State's metal recycling contractor provided and collected two 15-20 foot bins for the PSTC's recycling of metal scrapped in the renovation of the PSTC's firing range. The contractor did not provide the PSTC with documentation of the collection of the bins, contrary to the contract with the State that provides the "Contractor shall leave a pick up receipt (in duplicate) showing what was picked up"

Recommendation:

The PSTC should deposit proceeds from the sale of recycled materials, including spent bullet metal, in the State recycling fund.

If the PSTC determines the revenues from their metal recycling activity would be more appropriately retained in the Police Standards and Training Fund, the PSTC should request a statutory exemption from RSA 9-C:7.

The PSTC should request pick up receipts from the State's metal recycling contractor. A copy of the receipt should be forwarded to the Department of Administrative Services for comparison to subsequent revenues collected from the contractor.

Auditee Response:

We concur in part. PSTC was not aware of the requirement provided within RSA 9-C:7 which required the revenue from recycling efforts to be deposited into the state recycling fund, and we did receive revenue from the recycling of spent bullet materials as done in the past. As we are now aware of this requirement, we will insure that future recycling revenue will be remitted to the state recycling fund in the absence of an exception to RSA 9-C:7 for PSTC.

During a major renovation, we did recycle steel using the current State contract as required. It was in this contract that we learned of the existence of the state recycling fund and that the revenues from recycling by PSTC would not return to PSTC. Arrangements were made with the contractor to drop off and remove two bins containing steel for recycling, but it does not appear that the contractor left behind a pick up receipt at our location during the pick-up. In speaking with the contractor, if a pick-up receipt was provided, it would only confirm that a bin was picked up and that it contained metal, and would not include information as to items, quantities, or weight. The bin has to be returned to the contractor's processing location so that the materials can be weighed, graded, and processed accordingly. Under the terms of the contract as written, it is the responsibility of the contractor to submit a rebate payment package to the Department of Administrative Services which will include weigh slips for the materials collected along with gross, tare and net weights, the contract price for the item(s), and a rebate check after the materials are processed. In this case, there are no pick-up receipts, and in speaking with the contract manager for the Contractor, a pick-up receipt would not provide sufficient information for comparison as to whether sufficient revenue was received. That information would be included in the rebate package submitted by the contractor to Administrative Services, of which PSTC does not receive a copy under the terms of the existing contract.

Observation No. 9: Indirect Cost Plan And Rate Should Be Established For Federal Program

Observation:

Problems in the PSTC's accounting for a federal pass-through grant indicate the PSTC needs training in that accounting activity. Also, an apparent conflict in statute should be resolved.

1. During the six months ended December 31, 2010, the PSTC funded a training program using a federal pass-through grant. During that period, the PSTC, using another agency's 8.4% indirect cost rate, drew approximately \$2,600 of agency-based indirect costs against that grant. The PSTC did not request federal approval for the use of the rate or document whether the 8.4% indirect cost rate was an appropriate rate for its recovery of agency indirect costs. In addition to federal regulations which require federal approval for indirect cost rates applied against federal grants, RSA 124:11, I, requires "Each state agency receiving a federal grant or grants [to] compute an agency indirect cost rate...."
2. The PSTC charged the indirect costs to the program's Consultants expenditure class line and made payment to the Department of Administrative Services (DAS) in compliance with RSA 124:11. That statute directs with few exceptions, "All such [agency] indirect costs received shall accrue to the state general fund and shall not be available for expenditure by the agency...." The PSTC is not one of the named exceptions in the statute. According to DAS, because the payment was made from the Consultants class line, and the PSTC had not effectively notified DAS of the payment, the transaction was not fully processed. Subsequent to the auditor's inquiry, DAS determined the PSTC did not owe this indirect cost payment to the general fund. As of March 2011, the payment had not been reversed.
3. RSA 124:11 appears to be in partial conflict with RSA 21-I:76. While RSA 124:11 requires agencies pay all agency indirect costs to DAS for deposit into the General Fund, RSA 21-I:76 requires agencies to pay agency indirect costs attributable to recoveries of General Fund expenditures to the DAS for deposit into the General Fund. As the PSTC is a self-funded organization, it appears RSA 21-I:76 does not require the PSTC to pay any agency indirect costs to DAS, contrary to RSA 124:11.

Recommendation:

The PSTC should establish an approved indirect cost rate as required by federal regulations and RSA 124:11, I, prior to charging indirect costs to a federal program.

The PSTC should charge expenditures to the appropriate accounts.

The PSTC should seek clarification as to the application of RSA 124:11 and RSA 21-I:76 with regard to agency indirect costs.

The Legislature may want to clarify the apparent conflict between RSA 124:11 and RSA 21-I:76 with regard to agency indirect costs.

Auditee Response:

We concur. PSTC did begin the process to develop an indirect cost with the U.S. Department of Justice as noted in the previous audit. That process has not yet been completed. In the interim, PSTC used the indirect cost rate established for the N.H. Community College System, to which PSTC is administratively attached. As recommended, we will not assess indirect costs to future federal programs until our own rate is established. There does appear to be an ambiguity within the statutes as to whether PSTC is required to pay indirect costs to the Department of Administrative Services, as no General Fund monies are impacted in the transaction. We will work with the Department of Administrative Services (DAS) to determine when and if indirect costs need to be transferred to them. Since DAS has determined that the most recent payment made to them was unnecessary, we are working on reversing that transaction. We will re-initiate our efforts to establish an indirect cost rate specific to PSTC and insure that future associated costs are charged to the appropriate account.

Independent Auditor's Report

To The Fiscal Committee Of The General Court:

We have audited the accompanying Statement of Revenues and Expenditures - General Fund and Capital Projects Fund of the New Hampshire Police Standards and Training Council (Council) for the six months ended December 31, 2010. The financial statement is the responsibility of the management of the Council. Our responsibility is to express opinions on the financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the financial statement referred to above does not purport to and does not constitute a complete financial presentation of the Police Standards and Training Council in the General or Capital Projects Funds in conformity with accounting principles generally accepted in the United States of America.

In our opinion, except for the matter discussed in the third paragraph, the financial statement referred to above presents fairly, in all material respects, certain financial activity of the Council for the six months ended December 31, 2010, in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming opinions on the Statement of Revenues and Expenditures - General Fund and Capital Projects Fund of the Council. The supplementary

information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statement. Such information has been subjected to the auditing procedures applied in the audit of the financial statement. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the financial statement taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated April 18, 2011, on our consideration of the Council's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, rules, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Office Of Legislative Budget Assistant

April 18, 2011

**STATE OF NEW HAMPSHIRE
POLICE STANDARDS AND TRAINING COUNCIL
STATEMENT OF REVENUES AND EXPENDITURES
GENERAL FUND AND CAPITAL PROJECTS FUND
FOR THE SIX MONTHS ENDED DECEMBER 31, 2010**

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Total</u>
<u>Revenues</u>			
Restricted Revenues			
Penalty Assessment	\$ 1,402,520	\$ -0-	\$ 1,402,520
Federal Pass Through Grant	<u>33,127</u>	<u>-0-</u>	<u>33,127</u>
Total Restricted Revenues	<u>1,435,647</u>	<u>-0-</u>	<u>1,435,647</u>
Total Revenues	<u>1,435,647</u>	<u>-0-</u>	<u>1,435,647</u>
<u>Expenditures</u>			
Salaries And Benefits	1,065,018	-0-	1,065,018
Debt Service	232,344	-0-	232,344
Consultants	158,974	-0-	158,974
Contracted Food Services	77,082	-0-	77,082
Transfers To Other State Agencies	69,295	-0-	69,295
Current Expenses	64,607	-0-	64,607
Indirect Costs	49,008	-0-	49,008
Heat, Electricity, And Water	20,542	-0-	20,542
Equipment	17,677	-0-	17,677
Maintenance	15,440	-0-	15,440
Grants	10,040	-0-	10,040
Travel	9,880	-0-	9,880
Unemployment And Workers' Compensation	5,070	-0-	5,070
Miscellaneous	521	-0-	521
Electrical Generators	-0-	263,032	263,032
Indoor Firearms Range Retrofit	<u>-0-</u>	<u>117,391</u>	<u>117,391</u>
Total Expenditures	<u>1,795,498</u>	<u>380,423</u>	<u>2,175,921</u>
Excess (Deficiency) Of Revenues Over (Under) Expenditures	<u>(359,851)</u>	<u>(380,423)</u>	<u>(740,274)</u>
Other Financing Sources (Uses)			
Net Appropriations (Note 2)	<u>359,851</u>	<u>380,423</u>	<u>740,274</u>
Total Other Financing Sources (Uses)	<u>359,851</u>	<u>380,423</u>	<u>740,274</u>
Excess (Deficiency) Of Revenues And Other Financing Sources Over (Under) Expenditures And Other Financing Uses	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

The accompanying notes are an integral part of this financial statement.

**STATE OF NEW HAMPSHIRE
POLICE STANDARDS AND TRAINING COUNCIL**

**NOTES TO THE FINANCIAL STATEMENT
FOR THE SIX MONTHS ENDED DECEMBER 31, 2010**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statement of the New Hampshire Police Standards and Training Council has been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) and as prescribed by the Governmental Accounting Standards Board (GASB), which is the primary standard-setting body for establishing governmental accounting and financial reporting principles.

A. Financial Reporting Entity

The reporting entity of this audit and audit report is the New Hampshire Police Standards and Training Council (Council). The Council is an organization of the primary government of the State of New Hampshire. The accompanying financial statement reports certain financial activity of the Council.

The financial activity of the Police Standards and Training Council is accounted for and reported in the General Fund and Capital Projects Fund in the State of New Hampshire's Comprehensive Annual Financial Report (CAFR). Assets, liabilities, and fund balances are reported by fund for the State as a whole in the CAFR. The Council, as an organization of the primary government, accounts for only a small portion of the General Fund and Capital Projects Fund and those assets, liabilities, and fund balances as reported in the CAFR that are attributable to the Council cannot be determined. Accordingly, the accompanying Statement of Revenues and Expenditures - General Fund and Capital Projects Fund is not intended to show the financial position or fund balance of the Police Standards and Training Council in the General Fund or Capital Projects Fund.

B. Financial Statement Presentation

The State of New Hampshire and the Council use funds to report on their financial position and the results of their operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts. The Council reports its financial activity in the funds described below.

Governmental Fund Type:

General Fund: The General Fund is the State's primary operating fund and accounts for all financial transactions not accounted for in any other fund. All revenues of governmental funds, other than certain designated revenues, are credited to the General Fund. Annual expenditures that are not allocated by law to other funds are charged to the General Fund.

Capital Projects Fund: The Capital Projects Fund is used to account for certain capital improvement appropriations which are or will be primarily funded by the issuance of state bonds or notes, other than bonds and notes for highway or turnpike purposes, or by the application of certain federal matching grants.

C. Measurement Focus And Basis Of Accounting

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay the liabilities of the current period. For this purpose, except for federal grants, the State generally considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to debt service, compensated absences, and claims and judgments are recorded only when payment is due.

D. Revenues And Expenditures

In the governmental fund financial statements, revenues are reported by source. For budgetary control purposes, revenues are further classified as either “general purpose” or “restricted”. General purpose revenues are available to fund any activity accounted for in the fund. Restricted revenues are, either by State law or by outside restriction (e.g., federal grants), available only for specified purposes. Unused restricted revenues at year end are recorded as reservations of fund balance. When both general purpose and restricted funds are available, it is the State’s policy to use restricted revenues first. In the governmental fund financial statements, expenditures are reported by function.

E. Budget Control And Reporting

General Budget Policies

The statutes of the State of New Hampshire require the Governor to submit a biennial budget to the Legislature for adoption. This budget, which includes a separate budget for each year of the biennium, consists of three parts: Part I is the Governor's program for meeting all expenditure needs and estimating revenues. There is no constitutional or statutory requirement that the Governor propose, or that the Legislature adopt, a budget that does not resort to borrowing. Part II is a detailed breakdown of the budget at the department level for appropriations to meet the expenditure needs of the government. Part III consists of draft appropriation bills for the appropriations made in the proposed budget.

The operating budget is prepared principally on a modified cash basis and adopted for the governmental funds with the exception of the Capital Projects Fund and certain proprietary funds. The Capital Projects Fund budget represents individual projects that extend over several fiscal years. Since the Capital Projects Fund comprises appropriations for multi-year projects, it

is not included in the budget and actual comparison schedule in the State of New Hampshire CAFR. Fiduciary Funds are not budgeted.

In addition to the enacted biennial operating budget, the Governor may submit to the Legislature supplemental budget requests necessary to meet expenditures during the current biennium. Budgetary control is at the department level. In accordance with RSA 9:16-a, notwithstanding any other provision of law, every department is authorized to transfer funds within and among all program appropriation units within said department, provided any transfer of \$2,500 or more shall require prior approval of the Joint Legislative Fiscal Committee and the Governor and Council.

Both the Executive and Legislative Branches of government maintain additional fiscal control procedures. The Executive Branch, represented by the Commissioner of the Department of Administrative Services, is directed to continually monitor the State's financial operations, needs, and resources, and to maintain an integrated financial accounting system. The Legislative Branch, represented by the Joint Legislative Fiscal Committee, the Joint Legislative Capital Budget Overview Committee, and the Office of Legislative Budget Assistant, monitors compliance with the budget and the effectiveness of budgeted programs.

Unexpended balances of appropriations at year end will lapse to undesignated fund balance and be available for future appropriations unless they have been encumbered or legally defined as non-lapsing, which means the balances are reported as reservation of fund balance. The balance of unexpended encumbrances is brought forward into the next fiscal year. Capital Projects Fund unencumbered appropriations lapse in two years unless extended or designated as non-lapsing by law.

Contracts and purchasing commitments are recorded as encumbrances when the contract or purchase order is executed. Upon receipt of goods or services, the encumbrance is liquidated and the expenditure and liability are recorded. At December 31, 2010, the Council's unliquidated encumbrance balances in the General Fund and Capital Projects Fund were \$587,523 and \$668,037, respectively.

A Budget To Actual Schedule - General Fund and a Schedule Of Budget And Expenditures - Capital Projects Fund are included as supplementary information.

NOTE 2 - NET APPROPRIATIONS

Net appropriations reflect appropriations for expenditures in excess of restricted revenues.

NOTE 3 - EMPLOYEE BENEFIT PLANS

New Hampshire Retirement System

The Police Standards and Training Council, as an organization of the State government, participates in the New Hampshire Retirement System (Plan). The Plan is a contributory defined-benefit plan and covers all full-time employees of the Council. The Plan qualifies as a tax-

exempt organization under Sections 401 (a) and 501 (a) of the Internal Revenue Code. RSA 100-A established the Plan and the contribution requirements. The Plan, which is a cost-sharing, multiple-employer Public Employees Retirement System (PERS), is divided into two membership groups. Group I consists of State and local employees and teachers. Group II consists of firefighters and police officers. All assets are in a single trust and are available to pay retirement benefits to its members and beneficiaries.

Group I members at age 60 qualify for a normal service retirement allowance based on years of creditable service and average final compensation (AFC). The yearly pension amount is 1/60 (1.67%) of AFC multiplied by years of creditable service. AFC is defined as the average of the three highest salary years. At age 65, the yearly pension amount is recalculated at 1/66 (1.5%) of AFC multiplied by years of creditable service. Members in service with ten or more years of creditable service who are between ages 50 and 60 or members in service with at least 20 or more years of service, whose combination of age and service is 70 or more, are entitled to a retirement allowance with appropriate graduated reduction based on years of creditable service.

Group II members who are age 60, or members who are at least age 45 with at least 20 years of creditable service can receive a retirement allowance at a rate of 2.5% of AFC for each year of creditable service, not to exceed 40 years.

All covered Police Standards and Training Council employees are members of either Group I or Group II.

Members of both groups may qualify for vested deferred allowances, disability allowances, and death benefit allowances subject to meeting various eligibility requirements. Benefits are based on AFC or earnable compensation, service, or both.

The Plan is financed by contributions from the members, the State and local employers, and investment earnings. During the six months ended December 31, 2010, Group I members were required to contribute 5% of gross earnings, except for state employees whose employment began on or after July 1, 2009, contribute 7% of gross earnings. Group II members were required to contribute 9.3% of gross earnings. The State funds 100% of the employer cost for all of the Council's employees enrolled in the Plan. The annual contribution required to cover any normal cost beyond the employee contribution is determined every two years based on the Plan's actuary.

The Council's payments for normal contributions for the six months ended December 31, 2010 amounted to 9.09% of the covered payroll for its Group I employees and 17.34% of the covered payroll for its Group II employees. The Council's normal contributions for the six months ended December 31, 2010 for Group I employees and Group II employees were \$34,407 and \$41,149, respectively.

A special account was established by RSA 100-A:16, II (h) for additional benefits. During fiscal year 2007, legislation was passed that permits the transfer of assets into the special account for earnings in excess of 10.5% as long as the actuary determines the funded ratio of the retirement

system to be at least 85%. If the funded ratio of the system is less than 85%, no assets will be transferred to the special account.

The New Hampshire Retirement System issues a publicly available financial report that may be obtained by writing to them at 54 Regional Drive, Concord, NH 03301 or from their web site at <http://www.nhrs.org>.

Other Postemployment Benefits

In addition to providing pension benefits, RSA 21-I:30 specifies that the State provide certain health care insurance benefits for retired employees. These benefits include group hospitalization, hospital medical care, and surgical care. Substantially all of the State's employees who were hired on or before June 30, 2003 and have 10 years of service, may become eligible for these benefits if they reach normal retirement age while working for the State and receive their pensions on a periodic basis rather than a lump sum. During fiscal year 2004, legislation was passed that requires State Group I employees hired after July 1, 2003 to have 20 years of State service in order to qualify for health insurance benefits. These and similar benefits for active employees and retirees are authorized by RSA 21-I:30 and provided through the Employee and Retiree Benefit Risk Management Fund, which is the State's self-insurance fund implemented in October 2003 for active State employees and retirees. The State recognizes the cost of providing these benefits on a pay-as-you-go basis by paying actuarially determined contributions into the fund. The New Hampshire Retirement System's medical premium subsidy program for Group I and Group II employees also contributes to the fund. The Council's medical subsidy contribution rate for the six months ended December 31, 2010 was 1.96% of the covered payroll for its Group I employees and 2.17% of the covered payroll for its Group II employees. The Council's contributions for the medical subsidy for the six months ended December 31, 2010 for Group I employees and Group II employees were \$7,419 and \$5,150, respectively.

The cost of the health benefits for the Council's retired employees and spouses is a budgeted amount paid from an appropriation made to the administrative organization of the New Hampshire Retirement System. The Council reimburses the New Hampshire Retirement System for its share of post-employment health care benefits. The amount reimbursed for the six months ended December 31, 2010 totaled \$67,122.

The State Legislature currently plans to only partially fund (on a pay-as-you-go basis) the annual required contribution (ARC), an actuarially determined rate in accordance with the parameters of Governmental Accounting Standard Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits other than Pensions*. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The ARC and contributions are reported for the State as a whole and are not separately reported for the PSTC.

**STATE OF NEW HAMPSHIRE
POLICE STANDARDS AND TRAINING COUNCIL
BUDGET TO ACTUAL SCHEDULE - GENERAL FUND
FOR THE SIX MONTHS ENDED DECEMBER 31, 2010**

<u>Revenues</u>	<u>Original Budget</u>	<u>Actual</u>	Favorable (Unfavorable) Variance
Restricted Revenues			
Penalty Assessment	\$ 4,202,032	\$ 1,402,520	\$ (2,799,512)
Federal Pass Through Grant	-0-	33,127	33,127
Total Restricted Revenues	<u>4,202,032</u>	<u>1,435,647</u>	<u>(2,766,385)</u>
Total Revenues	<u>4,202,032</u>	<u>1,435,647</u>	<u>(2,766,385)</u>
 <u>Expenditures</u>			
Salaries And Benefits	2,583,768	1,065,018	1,518,750
Debt Service	238,958	232,344	6,614
Consultants	248,847	158,974	89,873
Contracted Food Services	294,309	77,082	217,227
Transfers To Other State Agencies	189,443	69,295	120,148
Current Expenses	270,195	64,607	205,588
Indirect Costs	46,643	49,008	(2,365)
Heat, Electricity, And Water	101,682	20,542	81,140
Equipment	50,833	17,677	33,156
Maintenance	73,559	15,440	58,119
Grants	53,000	10,040	42,960
Travel	27,963	9,880	18,083
Unemployment And Workers' Compensation	12,342	5,070	7,272
Miscellaneous	10,490	521	9,969
Total Expenditures	<u>4,202,032</u>	<u>1,795,498</u>	<u>2,406,534</u>
 Excess (Deficiency) Of Revenues Over (Under) Expenditures	<u>-0-</u>	<u>(359,851)</u>	<u>(359,851)</u>
 Other Financing Sources (Uses)			
Net Appropriations (Note 2)	-0-	359,851	(359,851)
Total Other Financing Sources (Uses)	<u>-0-</u>	<u>359,851</u>	<u>(359,851)</u>
 Excess (Deficiency) Of Revenues And Other Financing Sources Over (Under) Expenditures And Other Financing Uses	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

The accompanying notes are an integral part of this schedule.

Notes To The Budget To Actual Schedule - General Fund For The Six Months Ended December 31, 2010

Note 1 - General Budget Policies

The statutes of the State of New Hampshire require the Governor to submit a biennial budget to the Legislature for adoption. This budget, which includes annual budgets for each year of the biennium, consists of three parts: Part I is the Governor's program for meeting all expenditure needs as well as estimating revenues to be received. There is no constitutional or statutory requirement that the Governor propose, or the Legislature adopt, a budget that does not resort to borrowing. Part II is a detailed breakdown of the budget at the department level for appropriations to meet the expenditure needs of the government. Part III consists of draft appropriation bills for the appropriations made in the proposed budget.

The operating budget is prepared principally on a modified cash basis and adopted for the governmental funds with the exception of the Capital Projects Fund and certain proprietary funds.

The New Hampshire biennial budget is composed of the initial operating budget, supplemented by additional appropriations. These additional appropriations and estimated revenues from various sources are authorized by Governor and Council action, annual session laws, and existing statutes which require appropriations under certain circumstances.

The budget, as reported in the Budget To Actual Schedule, reports the initial operating budget for fiscal year 2011 as passed by the Legislature in Chapter 143, Laws of 2009.

Budgetary control is at the department level. In accordance with RSA 9:16-a, notwithstanding any other provision of law, every department is authorized to transfer funds within and among all program appropriation units within said department, provided any transfer of \$2,500 or more shall require approval of the Joint Legislative Fiscal Committee and the Governor and Council. Additional fiscal control procedures are maintained by both the Executive and Legislative Branches of government. The Executive Branch, represented by the Commissioner of the Department of Administrative Services, is directed to continually monitor the State's financial system. The Legislative Branch, represented by the Joint Legislative Fiscal Committee, the Joint Legislative Capital Budget Overview Committee, and the Office of Legislative Budget Assistant, monitors compliance with the budget and the effectiveness of budgeted programs.

Unexpended balances of appropriations at year end will lapse to undesignated fund balance and be available for future appropriations unless they have been encumbered or are legally defined as non-lapsing accounts.

Variances - Favorable/(Unfavorable)

The variance column on the Budget To Actual Schedule highlights differences between the original operating budget and the actual revenues and expenditures for the six months ended December 31, 2010. Actual revenues exceeding budget or actual expenditures being less than

budget generate a favorable variance. Actual revenues being less than budget or actual expenditures exceeding budget cause an unfavorable variance.

Unfavorable variances are expected for revenues and favorable variances are expected for expenditures when comparing six months of actual revenues and expenditures to an annual budget.

Note 2 - Net Appropriations

Net appropriations reflect appropriations for expenditures in excess of restricted revenues.

The unfavorable variance in net appropriations represents PSTC expenditures in excess of restricted revenues for the six months ended December 31, 2010. The 2010-2011 Operating Budget, footnote I states, "In the event that estimated revenue is less than budgeted, the total appropriation shall be reduced by the amount of the shortfall in either actual or projected budgeted revenue. The agency head shall notify the bureau of accounting services forthwith, in writing, as to precisely which line item appropriation and in what specific amounts reductions are to be made in order to fully compensate for the total revenue deficits. The provisions of this footnote do not apply to federal funds covered by RSA 124:14." At December 31, 2010, PSTC appropriations (and expenditures) had not been reduced in accordance with footnote I.

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**STATE OF NEW HAMPSHIRE
POLICE STANDARDS AND TRAINING COUNCIL
SCHEDULE OF BUDGET AND EXPENDITURES - CAPITAL PROJECTS FUND
FOR THE SIX MONTHS ENDED DECEMBER 31, 2010**

<u>Chapter Law, Program</u>	<u>Budget</u>	<u>Expenditures July 1, 2010 - December 31, 2010</u>
Chapter 145:1, IX, A, Laws 2009		
Electrical Generators	\$ 740,000	\$ 263,032
Chapter 145:1, IX, B, Laws 2009		
Indoor Firearms Range Retrofit	<u>700,000</u>	<u>117,391</u>
Total	<u><u>\$ 1,440,000</u></u>	<u><u>\$ 380,423</u></u>

The accompanying note is an integral part of this schedule.

<u>(Unaudited) Prior Period Expenditures</u>	<u>(Unaudited) Total Expenditures</u>	<u>(Unaudited) Unexpended</u>
\$ 1,625	\$ 264,657	\$ 475,343
4,554	121,945	578,055
<u>\$ 6,179</u>	<u>\$ 386,602</u>	<u>\$ 1,053,398</u>

**Note To The Schedule Of Budget And Expenditures - Capital Projects Fund
For The Six Months Ended December 31, 2010**

Note - Capital Budget

Prior to May 2004, capital projects appropriations lapsed at the end of the biennium unless extended into the subsequent capital budget. Chapter 138, Laws of 2004 changed the two-year capital budget by establishing a six-year capital budget and amending sections of RSA 9. RSA 9:18 provides that all unexpended portions of capital appropriations made by the six-year capital budget are to lapse at the end of six years from the date the appropriation took effect. However, legislative practice has been to continue extending the lapse dates for all approved projects through the subsequent biennium.

During the 2009 legislative session each of the projects initially budgeted in a previous biennium was extended through June 30, 2011, or consisted of obligations incurred by contract, in which case there was no lapse until the satisfaction or fulfillment of such contractual obligations.

Obligations incurred by contract are recorded as encumbrances when the contract is executed. Upon satisfactory fulfillment of the contracted services, the encumbrance is liquidated and the expenditure and liability are recorded. Subsequently, capital projects that have been allowed to legislatively lapse, will record expenditures in the following fiscal period to the extent contractual obligations were entered into prior to the project's lapse date.

APPENDIX - CURRENT STATUS OF PRIOR AUDIT FINDINGS

The following is a summary, as of April 18, 2011, of the current status of the observations contained in the financial audit report of the Police Standards and Training Council for the nine months ended March 31, 2005. A copy of that report can be accessed at the Office of Legislative Budget Assistant website at: www.gencourt.state.nh.us/lba/audit.html.

	<u>Status</u>		
<i>Internal Control Comments</i>			
<i>Reportable Conditions</i>			
1. Formal Risk Assessment Policies And Procedures Should Be Established	●	●	○
2. Controls Should Be Established Over Revenues Collected For The PSTC By Other State Organizations (<i>See Current Observation No. 1</i>)	○	○	○
3. Receipts Resulting From Normal Operations Should Be Recorded As Revenue	●	●	●
4. Indirect Cost Rate Should Be Developed (<i>See Current Observation No. 9</i>)	○	○	○
5. Cost Allocation Plan Should Be Established To Support Costs Charged To PSTC Functional Areas	●	●	●
6. PSTC And State Payroll Controls Should Be Adhered To	●	●	●
7. Review And Approval Function Should Be Instituted For Posting Payroll Data	●	●	●
8. Redundant And Other Inefficient And Unnecessary Accounting Procedures Should Be Eliminated (<i>See Current Observation No. 2</i>)	●	○	○
9. Contributions Towards Post-Retirement Medical Costs Should Be Based On Actual Costs Incurred	●	●	●
10. Commuting Use Of State Motor Vehicles Should Be Reported	●	●	●
11. Accounting For Federal Programs Should Be Improved	●	●	●
12. Policies And Procedures Should Be Established For Training Grants To Local Police Departments	●	●	●
13. Understanding Of Terms And Conditions Of Grant Agreements Should Be Improved	●	●	●
14. Communications Related To Equipment Control Procedures Should Be Improved	●	●	●
15. Annual Equipment Inventory Observation Procedures Should Be Reviewed And Understood	●	●	●
16. Unneeded Encumbrances Should Be Liquidated	●	●	●
<i>Compliance Comments</i>			
<i>State Compliance</i>			
17. Annual Report Should Be Filed	●	●	●
<i>Federal Compliance</i>			
18. Federal Participation In Expenditures Should Be Based On Grant Guidelines	●	●	●

<u>Status Key</u>	●	●	●	<u>Count</u>
Fully Resolved	●	●	●	14
Substantially Resolved	●	●	○	1
Partially Resolved	●	○	○	1
Unresolved	○	○	○	2

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